DOCUMENT RESUME

ED 240 942 HE 017 051

AUTHOR Frances, Carol
TITLE 1984: The Outlook for Higher Education.
INSTITUTION American Association for Higher Education, Washington, D.C.
PUB DATE Dec 83
NOTE 5p.
PUB TYPE Journal Articles (080) -- Viewpoints (120)
JOURNAL CIT AAHE Bulletin; v36 n4 p3-6 Dec 1983

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Educational Trends; *Enrollment Trends; Futures (of Society); *Higher Education; *Inflation (Economics); Prediction; Research; *State Aid; Teacher Employment; Teacher Salaries; Trend Analysis
IDENTIFIERS *College Costs

ABSTRACT

Trends affecting higher education and prospects based on these facts are considered, with attention to enrollment, inflation, ability to pay for college, state and local support, basic research, and employment in higher education. It is claimed that the most serious problem higher education has faced in the last decade has been inflation, not enrollment decline. Based on the number of 18- to 21-year-olds, it is suggested that 1984-1986 are the most likely years for enrollment decline. Over the last decade, academics lost comparatively more purchasing power than did workers generally, and there is currently increasing pressure to restore the purchasing power of faculty salaries. The financial difficulties families experience in paying for college are not likely to ease by much, while increased state support for higher education is likely to occur. There are some indications that higher education is in the process of losing its market share for basic research. There has been a shift in the employment structure on campus, with a growth in the employment of administrators. However, concern for the quality of education may result in the enhancement of the teaching function. (SW)

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1984:
The Outlook for Higher Education

by Carol Frances

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The newspaper headlines greeting people in recent weeks confirm that Americans are regaining confidence in their institutions and in themselves. Most people seem more hopeful about their prospects.

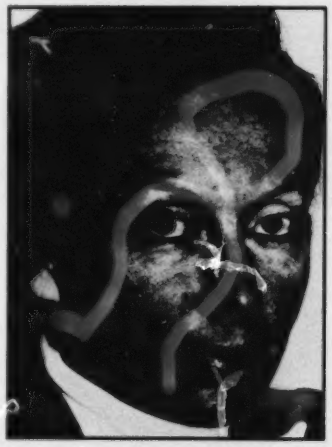
But not people in higher education. Many of them are driven to grim recitation of demographic downturns, organizing still more panels at annual meetings to discuss financial problems, comparing strategies for retrenchment, lamenting deterioration in faculty morale, and sending out their resumes.

Elsewhere, managers of companies are inviting their staff to parties to celebrate the great year just completed and to cheer for an even better performance in the coming year.

What is the difference in their outlooks? The difference is profound.

In the wondrously versatile English language, the word "outlook" has two distinct meanings. First, outlook refers to a set of real expectations about the future. Second, outlook characterizes a set of attitudes that reinforce each other and add up to a point of view.

This article on the outlook for 1984 assesses how the outlook *of* higher education—the point of view—corresponds with the outlook *for* higher education—the actual prospects as derived from the basic facts. In each domain, trend data are compared with general perceptions.



Carol Frances is chief economic advisor of the National Education Industry Group at Coopers & Lybrand. This article is based on her forthcoming book on* Leading Economic Indicators for Higher Education *to be published by Coopers & Lybrand in early 1984. Dr. Frances is a member of AAHE's Board of Directors.

Enrollment

Trends: For almost a decade, educators have been projecting enrollment decreases. Forecasts of drops of 15 or 20 percent or more were made. Conferences were held on retrenchment, books were published on managing decline and closing colleges, and enrollment projection models driven by college-age population trends added authority to planning for contraction. Insistence on the bleak outlook became almost righteous; raising questions about even the possibility that the enrollment decline might not be as bad as feared was treated as a dangerous diversion from the urgent task of getting ready to manage the coming decline.

Well, have you seen the latest statistics on enrollment? The early reports of enrollment for the fall of 1983 confirm that enrollment is up this year. Enrollment was up last year, too. Enrollments are up over eight percent since 1979, the year when the number of 18- to 21-year-olds peaked and began to decline. Enrollments are up from 20 to 30 percent since 1973-1974 when the projections of a decline were first published. Decline may yet occur, as will be noted in a moment, but it has not yet happened on a national level.

The anomaly is that educators still talk about decline in enrollment as if it has *already* happened. Educators have spent the last ten years talking about the wrong problem. The most serious problem higher education faced was inflation, not enrollment decline. This is not to ignore the difficulties facing a significant number of individual campuses caught in the middle of adverse, cross-cutting forces and which have indeed experienced enrollment decreases. But these are not the typical institutions.

Outlook: The enrollment declines forecast each year since the late 1970's did not materialize. Last year, when federal budget cuts threatened student financial aid programs, projections of enrollment decline were issued with still greater assurance. Even then, enrollment did not go down.

What about the coming years? Alas, if enrollment is ever going to decline, it will decline in the next three years. Forty percent of the decline in the number of 18- to 21-year-olds that takes place over the

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15 years from 1979 to 1994 will occur in the next three years, in 1984, 1985, and 1986.

Inflation

Trends: Inflation is down markedly in the economy as a whole, but hardly at all in higher education.

The conventional wisdom about inflation in higher education holds that the "natural rate" is higher than for the economy as a whole because wage and salary increases matching those of the rest of the economy are not offset by increases in productivity.

Well, another piece of the conventional wisdom has just crumbled away. In fact, during recent years of high general inflation, higher education institutions restrained tuition increases and kept budgets in balance through salary increases that were lower than overall inflation rates. Now higher education is "out of sync" in the reverse direction; even though the rate of general inflation has fallen sharply, tuition increases have been relatively large (9-10 percent this fall vs. 3 percent inflation) as institutions attempt to recoup previous losses to inflation.

Compared with the late 1970's, higher education institutions are educating significantly more students with significantly fewer real dollars for instruction. College presidents are giving assurances that quality is being maintained. If that is true, then higher education has realized outstanding productivity gains in recent years.

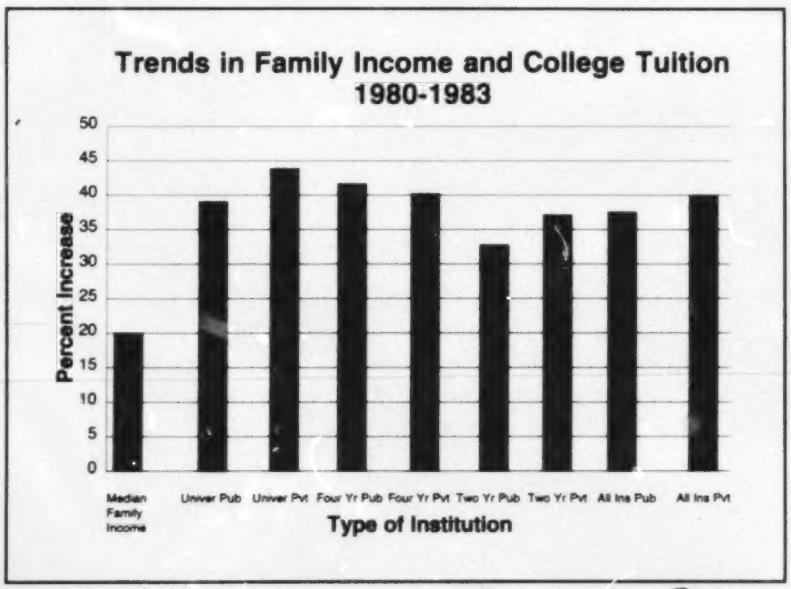
Outlook: Over the last decade, academics lost comparatively more purchasing power than did workers generally, and the pressure on campuses to restore the purchasing power of faculty salaries continues to build. This will keep cost increases larger in higher education than in the economy as a whole next year, and for some years to come.

Faculty appear to have greater leverage and are more likely to be able to achieve these increases in their salaries than might be expected, given the factors of supply and demand in the academic labor market. A possible reason for this is the greater role the faculty are playing in budget processes on the campuses.

Ability to Pay for College

Trends: The ability to pay is a key element in the decision of students to enroll in college and, consequently, in the outlook for enrollment and tuition revenues.

The debate over trends in the ability to pay, and specifically over whether or not there is a middle income crunch—a debate that surrounded consideration of the Middle Income Student Assistance Act—continues. Most of the recent analyses purport to show that it is not getting any harder to pay for college and, as a result, there is no greater need for student aid. Partly because of such arguments, eligibility for Guaranteed Student Loans has been rolled back.



These analyses of trends in the ability to pay for college can be challenged on the bases of the appropriateness of the measure of income used, or the way they adjust for the impact of inflation on trends in income, or the way spending for basic needs is calculated in order to measure the resources remaining for investment in college education.

But all that discussion has been rendered obsolete because, since 1980, college tuitions have gone up close to 40 percent, twice as fast as the median family income, which has gone up less than 20 percent. The basic conclusion that students and their families are finding it harder to pay for college is the same no matter which analytic technique is used.

Outlook: Sustained economic recovery in 1984 will have a very positive impact on the resources available to pay for college. Discretionary income swings more widely than total family income over the course of the business cycle and will increase at a faster rate than total income.

Inflation came down faster than most people expected. If inflation can be prevented from pushing back up, in spite of federal deficits, the combined impact of increased income and decreased inflation should be very favorable for the overall ability to pay college tuitions.

But the resources to pay for college have to be related to students' costs. Cost pressures on college campuses are likely to keep pressures up for tuition increases at a much higher rate than increases in the cost of living generally. And student's *net* costs after student aid are not likely to be reduced by significant expansion of governmental financial-assistance programs. Consequently, the financial difficulties families experience in paying for college are not likely to ease by much.

State and Local Support

Trends: State and local government support for higher education is yet another domain where the conventional wisdom in higher education about recent trends does not fit the facts.

Over the past several years, projections of declining state and local support were made as state budget surpluses slid into deficits intensified by the recession. Federal funding for social welfare and health programs was compressed into block grants, which were smaller than the previous combination of categorical programs, that left states with fewer resources to fund higher education and even more competition for those resources. Educators predicted state funding would go down and explained why in less than self-confident terms.

The explanations of how poorly higher education would fare in this competition for funds were repeated. Eventually, these explanations became the outlook for state funding of higher education. The explanation for adversity came to carry more weight in coloring the outlook than did the facts.

Department of Commerce data on state budget expenditures by major function are available for three decades. These data show that the share of state and local budgets expended for higher education has climbed over most of the last 30 years. There was a slight cyclical pattern in the 1950's and 1960's corresponding to overall business cycles when the long-term upward trend was interrupted by recessions, and there was a high plateau in the 1970's. But in the early 1980's, the percentage share climbed to over nine percent—its highest recorded level ever, up from 4 to 5 percent in the 1950's, 6 to 8 percent in the 1960's and 8 to 9 percent in the 1970's.

Expenditures for education at all levels are the largest components of state and local budgets. The share of these expenditures grew from about 33 percent in the 1950's to over 40 percent in the late 1960's and have stayed close to 40 percent ever since then. Higher education's share of the total spending for education at all levels increased from 13 percent in the late 1950's to 23 percent in the early 1970's where it has stayed into the 1980's.

These trends combined to produce a doubling over the past 30 years in the share that higher education accounts for in state and local governments' budgets, from about four percent to over nine percent.

Institutions have faced serious shortfalls in state and local funding, in most cases because enrollments grew faster than the real value of funding per student. But the problem was inflation, not unwillingness of legislatures to finance higher education.

This fact has been central to convictions about the important role higher education can play in economic revitalization and in maintaining America's technological edge in international market competition.

Though the colleges and universities still perform close to one-half of all basic research, the disquiet-

Comparative Annual Percentage Increases in Prices

	Higher Education Price Index (Fiscal Year)	Tuition at Four-Year Colleges (Academic Year) Public	Tuition at Four-Year Colleges (Academic Year) Private	Consumer Price Index (Calendar Year)
1963	3.9			1.2
64	3.8	3.8	7.5	1.3
65	4.3	5.8	6.1	1.7
66	5.0	7.0	6.8	2.9
67	5.3	2.9	5.2	2.9
68	6.0	4.2	6.6	4.2
69	6.8	9.5	10.8	5.4
1970	6.7	8.7	9.8	5.9
71	6.4	7.1	8.1	4.3
72	5.6	8.2	4.3	3.3
73	5.3	7.6	4.8	6.2
74	7.1	d	6.4	11.0
75	8.6	d	7.3	9.1
76	6.6	10.6	8.6	5.8
77	6.5	6.9	6.4	6.5
78	6.7	6.1	9.3	7.7
79	7.7	7.4	9.2	11.3
1980	9.9	8.6	11.8	13.5
81	10.7	13.9	13.6	10.4
82	9.9	10.7	11.8	6.1
83		9.0	9.9	4.0e

Note: d = discontinuous series
e = estimated value
□ = higher than the consumer price index

Outlook: All the signs are favorable for increased state support for higher education. Economic recovery will ease state budget constraints; surpluses are even beginning to reappear. And major efforts to improve the schools are likely to have positive, not negative, effects on support for higher education.

Basic Research

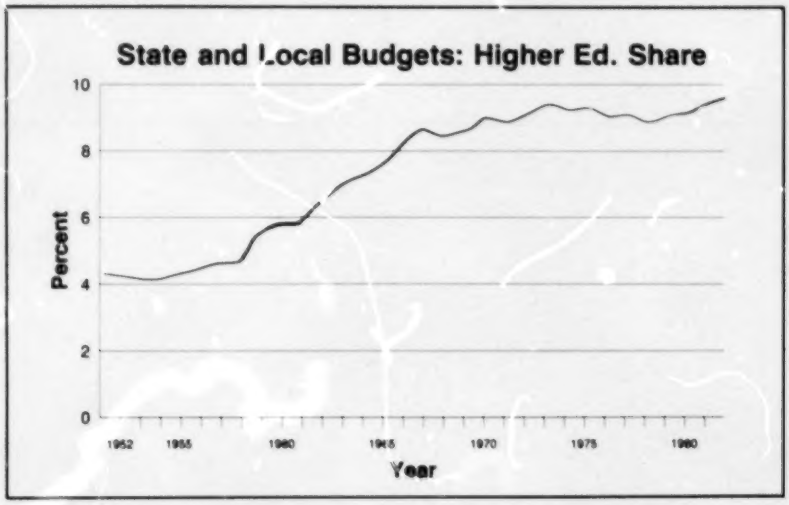
Trends: Colleges and universities perform close to half of the basic research in the United States. ing fact is that they have attracted only about *one-third* of the *added* dollars invested in basic research in the last five years.

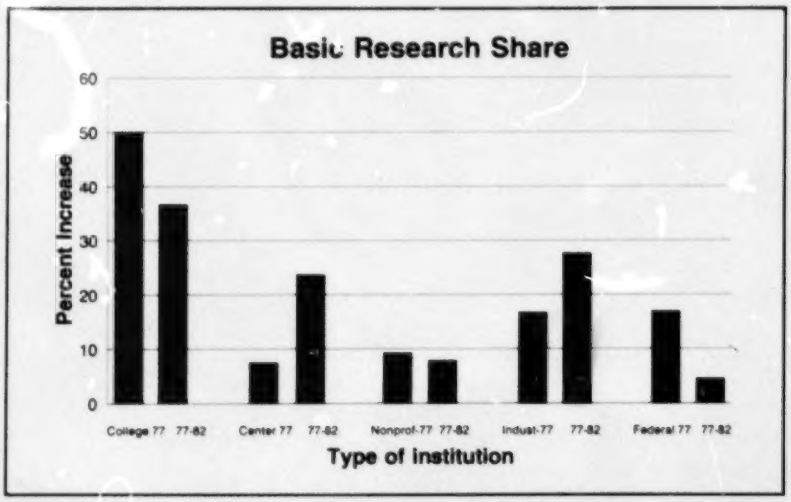
Spending for basic research has increased by close to 20 percent in real dollars over the five years from 1977 to 1982. But higher education did not maintain its share. Preliminary data for 1983 and 1984 indicate that the erosion of the college and university share is continuing, with the growth in basic research shifting to federally funded R and D centers and in-

dustry. Industry is financing much of the growth in its own performance of basic research; in addition, it is attracting a greater share of federal dollars for basic research.

Excitement about new industry/higher education partnerships was stimulated in part by hopes of greater investment by industry in basic research performed by the colleges and universities. But while attention focused on the process of arranging these new partnerships, it has not been focused on results of the larger context of overall economic trends.

Outlook: If the percentage of new dollars for basic research is a leading indicator for future market shares, higher education is in the process of losing its market share for basic research. This has important implications for higher education, industry, and government. It certainly will make it more difficult to close the gap between the age of research equipment and facilities at colleges and universities and that of industry.





Employment*

Trends: The focus on retrenchment as a critical concern in higher education over the last several years would lead to the expectation that employment had been contracting.

New data on employment in higher education compiled for the first time from Department of Labor statistics show that employment increased each year over each previous year in 1979, 1980, and 1981. In 1982, average annual employment dipped 1.4 percent below the previous year. Early data for 1983 indicate that the dip is bottoming out. During the five years that higher education has been talking about retrenchment, overall employment has increased about five percent. A bigger problem than retrenchment was a shift in the employment structure on campus; the growth of employment was in administration, not teaching.

**Based on a forthcoming report on Trends in Employment to be published by the American Federation of Teachers.*

Outlook: While overall budget constraints will continue to put downward pressure on total employment in higher education, 1984 could well mark the beginning of attempts to reduce the bureaucratic aspects of college administration and enhance the teaching function.

Across the country, mounting concern is intensifying the search for ways to improve the quality of education. The recent National Commission on Excellence in Education focused on elementary and high schools but the report contained important messages for colleges and universities.

Overall Outlook for 1984

People in higher education have spent the last decade focusing on their own problems, with such concentration—indeed, with such tunnel vision—that the focus was sometimes on the wrong problems, or the right problems at the wrong time.

In contrast, in enterprising firms, people focus on *other* people's problems, and convert them into opportunities to serve needs.

Characterizing the outlook for higher education is perhaps painting with too broad a brush. Instead, depicting the outlook is more like watching the creation of a pointilliste painting, with each new dot representing an added piece of information. As points of information are combined, the people out front will be those who are first to see the forms taking shape and those who are first to see the significance of the newly emerging picture.

The biggest difference may not be in the outlook *for* the colleges and universities, but the outlook *of* the leadership.

On campuses with vitality, creativity, and self-confidence, the questions will not be what is the outlook for higher education in 1984, but, rather, what are the implications of the changing scene, and what is the agenda? ■